# To Survive a Market Crash, Think Like an Institutional Investor: Morningstar Panel

By Jeff Berman September 18, 2020 at 04:05 PM

"The stock market is the only store where, when there's a sale, everybody runs out of the store," Larry Siegel of the CFA Institute Research Foundation says.

(Image: Shutterstock)

Aside from the cause of the most recent market crash being the COVID-19 pandemic, the crash was pretty similar to prior crashes in most other ways and, once again, those advisors and investors who have stayed the course with their portfolios will likely be rewarded in the end, according to presenters at Morningstar's virtual annual conference, which took place Wednesday and Thursday.

To combat the influx of terrible news around the pandemic, "act more like an institutional investor," Larry Siegel, director of research at the CFA Institute Research Foundation, said during the on-demand session "What Prior Market Crashes Teach Us About This One."

"The stock market is the only store where, when there's a sale, everybody runs out of the store," he noted, adding: "What you should do is run into the store and buy more. If things start to get expensive, buy less or maybe even sell. But the biggest lesson from institutional investing — and I did it for 15 years directly at the Ford Foundation — is don't just do something; stand there. We're Americans and we tend to think 'don't just stand there; do something.' We spring into action whenever there's a problem."

However, "if you act more like a long-term investor [and] stay the course and don't react to every blip in the market — whether it's up or down or large or small," you will be much better off, according to Siegel.

## The Sky Isn't Falling

"There's a lot of talk going around that the world is coming to an end and we're all going to die," he said, but he pointed out people have talked like this since biblical times.

The fact of the matter is that, after downturns, pandemics, wars and even depressions are over, "we recover and move to new highs" all the time, he noted. Despite often negative news, "we're making a lot of steady, slow progress that's harder to discern," he said.

He conceded that "when the market's down 34% in a few weeks, it's tempting to think 'I'm going to cut my losses now because if it's down another 34%, I'm broke and I'll never recover' — and it is possible that the market could fall that much more."

History, however, tells us that "you're almost always wrong to cut your losses at that point."

The key word there being "almost." After all, "there was one time when you should have" cut your losses early on, he said, pointing to the Great Depression, from 1929 to 1932. "We had a crash in '29, a crash in '30, a crash in 1931, a crash in 1932," he noted.

At its bottom in 1932, the Dow Jones Industrial Average was only at about 41, he pointed out. (For the sake of comparison, the Dow was at more than 27,000 Friday afternoon.)

"If you had held on, you would have gotten your money back by 1937, but you can't hold on — it's just not realistic" to not spend money while you and all your neighbors are out of jobs, he conceded.

## Where We're at Now Vs. March

"It made sense that the response to the virus — to the pandemic — basically shutting down large parts of the economy" was negative and led to the market crash that we saw in March, according to Paul Kaplan, director of research at Morningstar Canada.

On the other hand, "what's a little hard to explain is that the market has actually been recovering and it's not that far" from this year's market peak in February, Kaplan said.

However, Siegel was quick to point out that "most stocks have not recovered" like the S&P 500 index has. Six stocks have done better than the rest and are at all-time highs, but value and international stocks have done terribly, he said.

"I don't know why the market has recovered so quickly," Siegel said, adding: "The economy is in bad shape but not absolutely horrible shape. People are being called back to work ... Unemployment is coming down fast" but is still very high at the "cusp" of a recession-depression level.

The Federal Reserve's strategy has been to "hand out money like it's going out of style," and that may have helped the stock market recovery — but it was "hard to see how," Siegel said, estimating many Americans used any stimulus money they received to pay their mortgages and rent.

"I don't trust this bull market," Siegel said. But the eternal challenge is that investors often are hesitant to invest as the stock market is going up because they don't know the reason why and
"you only get into it when the worries go away and it's obvious that everybody is doing fine —
[and] that's not a good way to invest," he pointed out.

For those who sold of all or much of their stock when the market crashed, it is best to return to the market if you haven't done so already, understanding you will be paying higher prices now, and "return to your strategic asset allocation target," Siegel suggested.